

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name Shiawassee Area Transportation Agency	County Shiawassee
Audit Date 9/30/04	Opinion Date 12/9/04	Date Accountant Report Submitted to State:		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

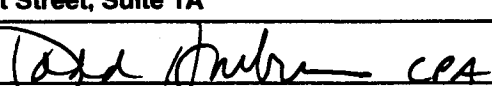
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) BKR Dupuis & Ryden			
Street Address 111 East Court Street, Suite 1A		City Flint	State MI
Accountant Signature 		ZIP 48502	Date 1/28/05

Financial Statements

**Shiawassee Area Transportation Agency
Owosso, Michigan**

September 30, 2004 and 2003

with Independent Auditors' Report

Table of Contents

	<u>Page</u>
Financial Section:	
Governing Committee and Administration	1
Independent Auditors' Report	2-3
Management Discussion and Analysis	4-6
 Basic Financial Statements:	
Statements of Net Assets	7
Statements of Revenues, Expenses, and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to Financial Statements	10-18
 Supplementary Information:	
Schedule I - Enterprise Fund Operating and Nonoperating Revenues	19
Schedule II - Enterprise Fund Operating Expenses	20
Schedule III - Schedule of Expenses by Contract and General Operations	21
Schedule IV - Maximum Reimbursement Computation of State Bus Operating Assistance	22
Schedule V - Detail of Ineligible Items	23
Schedule VI - Vehicle Miles (Unaudited)	24
 Independent Auditors' Report on Compliance on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
	25-26
 Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	
	27-28
Schedule of Expenditures of Federal Awards	29-31
Schedule of Findings and Questioned Costs	32-33
Summary Schedule of Prior Audit Findings	34

Shiawassee Area Transportation Agency

Governing Committee and Administration

September 30, 2004

Governing Board

Robert Buschman
Susan Osika
Charles Spring
Cameron Canute
Leo Krupp
Robert Bluedorn
Cathy Stevenson
James Huguelet
Chris Reha
Donald Trap
Jill Young

Corunna Representative
Owosso Representative
Corunna Representative
Durand Representative
Durand Representative
Owosso Representative
At Large Representative
Perry Representative
Perry Representative
RES D Representative
RES D Representative

Administration

Lawrence S. Alpert

Executive Director

Independent Auditors' Report

Board of Directors
Shiawassee Area Transportation Agency
180 North Delaney Road
Owosso, Michigan 48867

We have audited the financial statements of the Shiawassee Area Transportation Agency (SATA), as of and for the years ended September 30, 2004 and 2003. These financial statements are the responsibility of the Shiawassee Area Transportation Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and governmental auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shiawassee Area Transportation Agency at September 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, SATA adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of October 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 9, 2004 on our consideration of Shiawassee Area Transportation Agency's internal control structure over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements. The fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The other accompanying financial information, listed as schedules in the table of contents, is also presented for the purposes of additional analysis and is not a required part of the financial statements of the Shiawassee Area Transportation Agency. The information in the schedule of expenditures of federal awards and Schedules I through V have been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The information in Schedule VI has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

BKR Dupuis & Ryden

Certified Public Accountants
Flint Office

December 9, 2004

Management's Discussion and Analysis

As management of the Shiawassee Area Transportation Agency ("SATA"), we offer readers of SATA's basic financial statements this narrative overview and analysis of the financial activities of SATA for the years ended September 30, 2004 and 2003. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Overview of Financial Highlights

- SATA has net assets of \$1.2 million. These net assets result from the difference between total assets of \$1.4 million and total liabilities of \$260 thousand.
- Current assets of \$499 thousand primarily consist of receivables of \$450 thousand.
- Current liabilities of \$260 thousand primarily consist of construction payable of \$200 thousand.

Basic Financial Statements and Presentation

New Accounting Pronouncements

Effective October 1, 2003, SATA implemented the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus," and Statement No. 38, "Certain Financial Statement Disclosures." These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. These statements change SATA's presentation of net assets and change the note disclosure and require the inclusion of management's discussion and analysis.

The financial statements presented by SATA are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements are presented using the economic resources measurement focus and the accrual basis of accounting. SATA is structured as a single enterprise fund with revenues recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. Capital assets are capitalized and depreciated, except land, over their estimated useful lives.

The Statement of Net Assets presents information on all SATA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of SATA is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases in assets without a corresponding increase to liabilities results in increased net assets, which indicate improved financial position.

The Statement of Revenues, Expenses and Changes in Net Assets present information showing how SATA's net assets changed during the year. This statement summarizes operating revenues and expenses along with non-operating revenues and expenses. In addition, this statement lists capital grant revenues received from federal and state governments.

The Statement of Cash Flows allows financial statement users to assess SATA's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into three categories: 1) Cash flows from operating activities, 2) Cash flows from non-capital financing activities, and 3) Cash flows from capital and related financing activities.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of SATA

Condensed Summary of Net Assets

	<u>2004</u>	<u>2003</u>
Current assets	\$ 499,462	\$134,390
Capital assets (net of accumulated depreciation)	<u>956,464</u>	<u>307,440</u>
Total assets	<u>\$1,455,926</u>	<u>\$441,830</u>
Current liabilities	\$ 261,185	\$ 54,234
Non-current liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>\$ 261,185</u>	<u>\$ 54,234</u>
Net assets:		
Invested in capital assets	\$ 956,464	\$307,440
Unrestricted	<u>238,277</u>	<u>80,156</u>
Total net assets	<u>\$1,194,741</u>	<u>\$387,596</u>

The largest portion of SATA's net assets reflects investment in capital assets consisting of buses and operating facilities. SATA uses these capital assets to provide public transportation services for the Shiawassee County area.

Condensed Summary of Revenues, Expenses and Changes in Net Assets

	<u>2004</u>	<u>2003</u>
Operating revenues (expenses)		
Operating revenues	\$ 316,407	\$ 222,088
Operating expenses, excluding depreciation	(918,896)	(873,383)
Depreciation expense	<u>(114,992)</u>	<u>(77,742)</u>
Operating loss	<u>(717,481)</u>	<u>(729,037)</u>
Non-operating revenues (expenses)		
State grants and reimbursements	493,093	474,985
Federal grants and reimbursements	80,604	72,708
Contributed services	186,967	167,076
Gain on sale of capital assets	<u>-</u>	<u>4,957</u>
Total non-operating revenues	<u>760,664</u>	<u>719,726</u>
Capital grant revenue	<u>763,962</u>	<u>213,198</u>
Increase in net assets during the year	807,145	203,887
Net assets, beginning of year	<u>387,596</u>	<u>183,709</u>
Net assets, end of year	<u>\$1,194,741</u>	<u>\$387,596</u>

Significant Capital Expenditures

Transportation Facility

SATA made a significant investment in the construction of the Transportation Facility during 2004. The facility was constructed in conjunction with Shiawassee RESD.

Financial Operating Results

Revenues

Operating revenues are summarized into the following categories:

Passenger Fares – Farebox receipts and special transit fares are included here. The overall decrease over the previous year reflects the timing of purchases of punch passes.

Contract Fares – Fares from contractual agreements with various agencies and organizations. The overall increase from the previous year reflects additional grant funding available at the various agencies and organizations that SATA has agreements with.

Advertising – Fees derived from the contractual agreement to have advertisements on the buses are included here.

State Operating Grants – The Michigan Department of Transportation allocates grants for operating assistance based on expenses submitted by all Michigan transit agencies. Other specific grants are awarded as incentives to expand and enhance services to select clients.

Contributed Services – The value of these services would have to be paid for by SATA if not provided by contribution. The value of the services are recorded as revenues and expenses at their fair value.

Expenses

Labor and Fringe Benefits – These personnel costs accounted for approximately 49% of all SATA's operating expenses (excluding depreciation) in 2004. This proportion is consistent with past years' experiences.

Services – This account consists of operating, maintenance, general, and administrative services.

Materials and Supplies – Fuel and fluids for all vehicles, in addition to the parts to maintain and repair the fleet account for the majority of this classification.

Insurance – During fiscal 2004, SATA switched from commercial coverage to partial self-insurance coverage for property and liability insurance through the Michigan Transit Pool.

Request for Information

This financial report is designed to provide a general overview of SATA's finances for those with an interest in its finances. Questions concerning any of the information in this report or requests for additional financial information should be addressed to Larry Alpert, Executive Director, Shiawassee Area Transportation Agency, 180 N. Delaney St., Owosso, Michigan 48867.

Shiawassee Area Transportation Agency
Statements of Net Assets
September 30, 2004 and 2003

	2004	2003
Assets		
Current assets:		
Cash	\$ 33,571	\$ 21,067
Accounts receivable	112,621	8,211
Due from state government	299,944	75,357
Due from federal government	39,613	9,364
Prepaid expenses and deposits	13,713	20,391
Total current assets	499,462	134,390
Capital assets:		
Land	15,233	-
Building	715,390	-
Construction in progress	-	38,684
Revenue equipment	442,150	390,055
Maintenance and garage equipment	14,584	-
Furniture and fixtures	43,245	37,847
Total capital assets	1,230,602	466,586
Less accumulated depreciation	(274,138)	(159,146)
Capital assets - net	956,464	307,440
Total assets	\$ 1,455,926	\$ 441,830
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 29,585	\$ 32,814
Construction payable	221,213	-
Accrued salaries and wages	5,490	16,303
Accrued other expenses	4,897	5,117
Total current liabilities	261,185	54,234
Total liabilities	261,185	54,234
Net assets:		
Invested in capital assets	956,464	307,440
Unrestricted	238,277	80,156
Total net assets	1,194,741	387,596
Total liabilities and net assets	\$ 1,455,926	\$ 441,830

See notes to financial statements.

Shiawassee Area Transportation Agency
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended September 30, 2004 and 2003

	2004	2003
Operating revenues:		
Passenger fares	\$ 62,740	\$ 72,308
Contract fares	247,029	139,721
Advertising	6,638	9,811
Miscellaneous	-	248
Total operating revenues	<u>316,407</u>	<u>222,088</u>
Operating expenses:		
Labor	366,480	348,556
Fringe benefits	80,855	87,667
Services	302,101	272,379
Materials and supplies	89,142	69,332
Utilities	4,873	6,321
Insurance	36,448	53,219
Miscellaneous	7,390	6,994
Leases and rentals	31,607	28,052
Interest expense	-	863
Total operating expenses excluding depreciation	<u>918,896</u>	<u>873,383</u>
Operating loss before depreciation expense	(602,489)	(651,295)
Depreciation expense	<u>114,992</u>	<u>77,742</u>
Operating loss	<u>(717,481)</u>	<u>(729,037)</u>
Non-operating revenues:		
State of Michigan operating grants:		
Formula operating assistance (Act 51) - current year	310,315	310,159
Formula operating assistance (Act 51) - prior year	-	812
Project Zero	110,228	91,464
Specialized services	72,550	72,550
Federal operating grants:		
Section 5311 operating assistance	77,357	69,208
RTAP	3,247	3,500
Local operating units:		
Contributed services	186,967	167,076
Gain on sale of capital assets	-	4,957
Total non-operating revenues	<u>760,664</u>	<u>719,726</u>
Net income (loss) before capital grant revenue	<u>43,183</u>	<u>(9,311)</u>
Capital grant revenue:		
Federal	570,195	170,558
State	193,767	42,640
Total capital grant revenue	<u>763,962</u>	<u>213,198</u>
Increase in net assets	807,145	203,887
Net assets, beginning of the year	<u>387,596</u>	<u>183,709</u>
Net assets, end of the year	<u>\$ 1,194,741</u>	<u>\$ 387,596</u>

See notes to financial statements.

**Shiawassee Area Transportation Agency
Statements of Cash Flows - Proprietary Fund Type
For the Years Ended September 30, 2004 and 2003**

	2004	2003
Cash flows from operating activities:		
Cash received from customers	\$ 211,997	\$ 227,748
Cash payments to suppliers for goods and services	(362,000)	(349,335)
Cash payments to employees for services	(377,513)	(345,412)
	<u>(527,516)</u>	<u>(466,999)</u>
Net cash used in operating activities		
Cash flows from capital and related financing activities:		
Cash received from sale of capital assets	-	5,254
Cash received from capital grants	538,478	213,198
Additions to property and equipment	(542,803)	(213,198)
	<u>(4,325)</u>	<u>5,254</u>
Net cash provided by (used in) capital and related financing activities		
Cash flows from non-capital financing activities:		
Cash received from operating grants	544,345	457,523
	<u>544,345</u>	<u>457,523</u>
Net cash provided by non-capital financing activities		
Net increase (decrease) in cash	12,504	(4,222)
Cash at beginning of year	21,067	25,289
Cash at end of year	<u><u>\$ 33,571</u></u>	<u><u>\$ 21,067</u></u>
Reconciliation of operating income to net cash used in operating activities:		
Operating loss	\$ (717,481)	\$ (729,037)
Adjustments to reconcile net loss to net cash used in operating activities:		
Contributed services	186,967	167,076
Depreciation expense	114,992	77,742
Changes in operating assets and liabilities:		
Receivables	(104,410)	5,660
Prepaid expenses	6,678	(16,287)
Payables	(3,229)	24,703
Accrued salaries and wages	(10,813)	4,291
Other accrued expenses	(220)	(1,147)
Total adjustments	<u>189,965</u>	<u>262,038</u>
Net cash used in operating activities	<u><u>\$ (527,516)</u></u>	<u><u>\$ (466,999)</u></u>

See notes to financial statements.

Shiawassee Area Transportation Agency
Notes to Financial Statements
September 30, 2004 and 2003

1. Summary of significant accounting policies

The accounting policies of Shiawassee Area Transportation Agency conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies:

A. Reporting entity:

The Shiawassee Area Transportation Agency (SATA) was created by an agreement dated October 1, 1999, by the cities of Corunna, Durand, Owosso, and Perry, and the Shiawassee Regional Education Service District (RESD) pursuant to the provisions of Public Act 7 of 1967 (extra session) as amended.

Under the agreement it was agreed:

1. Pursuant to the provision of the Act, SATA was established for the purpose of providing public transportation services in areas throughout Shiawassee County, including on-demand transportation and transport of public school students needing to reach community sites as part of their educational program.
2. A party to this agreement may withdraw from SATA after having provided written notice to the remaining parties to this agreement at least one year prior to the effective date of the withdrawal.
3. Additional public agencies may become parties to this agreement upon the adoption of a resolution approved by the governing body of the public agency and with the concurrence of the other public agencies that are parties to this agreement now or in the future. The resolution shall be in the form specified by SATA's board of directors.
4. SATA shall be governed by a board of directors comprised of not more than thirteen members.
 - a. Each of the governing bodies of the cities of Corunna, Durand, Owosso, and Perry and the Shiawassee Regional Education Service District shall appoint two members to the board of directors for three year overlapping terms in accordance with the following schedule:

Corunna representative	term expiring October 1, 2005
Durand representative	term expiring October 1, 2005
Owosso representative	term expiring October 1, 2006
RESD representative	term expiring October 1, 2006
Durand representative	term expiring October 1, 2006
Perry representative	term expiring October 1, 2006
Corunna representative	term expiring October 1, 2004
Owosso representative	term expiring October 1, 2004
RESD representative	term expiring October 1, 2004
Perry representative	term expiring October 1, 2004

- b. Any public agency that shall become party to this agreement subsequent to its effective date shall appoint a single member to the board of directors. The board of directors shall determine the duration of the term of each member appointed pursuant to this subparagraph so as to equalize the number of terms expiring in any year. At such time as more than three additional public agencies have become parties to this agreement, the board of directors shall establish a schedule of rotating terms to fill the three board of director positions allocated to the additional public agencies.

Shiawassee Area Transportation Agency
Notes to Financial Statements
September 30, 2004 and 2003

1. Summary of significant accounting policies – (continued)

A. Reporting entity: – (continued)

4. – (continued)

- c. Whenever the total number of members appointed pursuant to subparagraphs a and b shall be an even number, the board of directors shall appoint a member-at-large. The term of the member-at-large shall expire on October 1, 2005 and every three years thereafter. The member-at-large shall be a resident of Shiawassee County but shall not be an employee of SATA or an employee or governing body member of any of the public agencies that are parties to this agreement. The member-at-large shall be counted when determining whether a quorum exists for the purpose of conducting business and shall have a vote on all matter before the board but may not serve as an officer of the board. If additional public agencies become parties to this agreement and appoint members such that the total number of members appointed by public agencies is an odd number, the service of the member-at-large on the board of directors shall be terminated.

Component units:

“The Financial Reporting Entity”, as defined by Statement No. 14 of the Governmental Accounting Standards Board (GASB), is comprised of the primary government and its component units. The primarily government includes all departments and operations of SATA which are not legally separate organizations. Component units are legally separate organizations which are fiscally dependent on SATA or for which SATA is financially accountable. The reporting entity of SATA consists solely of the primary government. There are no component units.

Under the guidelines of GASB Statement No. 14, SATA is a jointly governed organization as detailed above. None of the participating governments appoints a majority of SATA’s board and none has an ongoing financial interest or responsibility. Many of the participating governments provided in-kind support to SATA during fiscal 2003 and 2004 (see note 9).

B. Basis of accounting:

The accounts of SATA, which are organized as an enterprise fund, are used to account for SATA’s activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, SATA maintains its records on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Non-exchange transactions, in which SATA receives value without directly giving equal value in return, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to SATA on a reimbursement basis.

Pursuant to GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting”, private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. SATA also has the option of following subsequent private-sector guidance, subject to this same limitation. SATA has elected not to follow subsequent private-sector guidance as it relates to its operations.

Shiawassee Area Transportation Agency
Notes to Financial Statements
September 30, 2004 and 2003

1. Summary of significant accounting policies – (continued)

C. New accounting pronouncements:

Effective October 1, 2003, SATA implemented the provision of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". This statement revises accounting and reporting standards for general purpose external financial reporting by governmental units. This statement changes SATA's presentation of net assets and requires the inclusion of management's discussion and analysis.

D. Cash investments:

Investments are stated at cost, which approximates market. For purposes of the cash flows statement, all highly liquid short-term investments with a maturity of less than 90 days at time of purchase are classified as cash and cash equivalents. SATA had no investments at September 30, 2004 and 2003.

E. Prepaid expenses:

Prepaid expenses are payments made to vendors for services that will benefit periods beyond September 30, 2004 and 2003.

F. Accounts receivable:

SATA uses the allowance method for accounting for doubtful accounts. Management regularly reviews the collection history of its accounts receivable balances with particular attention given to those accounts greater than 90 days old. Based on management's review, the balance as of September 30, 2004 and 2003 is considered collectible and accordingly, no provision for uncollectible accounts has been made.

G. Capital assets:

SATA defines capital assets as assets with an initial cost equal to or exceeding \$5,000 which has a useful life in excess of one year. Capital assets are stated at costs or fair value at date of gift. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Provisions for depreciation of capital assets are computed on the straight-line method. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Building	20 years
Revenue equipment	5-12 years
Shop and garage equipment	3-10 years
Office equipment and furniture	4-10 years

Shiawassee Area Transportation Agency
Notes to Financial Statements
September 30, 2004 and 2003

1. Summary of significant accounting policies - (continued)

G. Capital assets: - (continued)

Net assets – equity displayed in two components as follows:

Invested in capital assets, net of related debt – This consist of capital assets, net of accumulated depreciation, less the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Unrestricted – This consists of net assets that are not legally restricted by outside parties or by law through constitutional provisions or enabling legislation, or do not meet the definition of “invested in capital assets, net of related debt”.

H. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Classifications of revenues:

SATA has classified its revenues as either operating or non-operating. Operating revenue includes activities that have the characteristics of exchange transactions including passenger fares, advertising, and rental revenue. Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as property tax proceeds and most federal, state, and local grants and contracts.

J. Recognition of revenue and receivables:

The federal government, through the Federal Transit Administration (FTA) and the Michigan Department of Transportation (MDOT), provide financial assistance and make grants directly to the Authority for operations and acquisition of property and equipment. Operating grants and special fare assistance awards made on the basis of entitlement periods are recorded as grant receivables and revenues over the entitlement periods. Capital grants for the acquisition of property and equipment (reimbursement type grants) are recorded as grant receivables and credited to non-operating revenues when the related capital expenditures are incurred. Capital grants for the maintenance of property, plant, and equipment are recorded as grant receivables and credited to non-operating revenues in the period operating expenditures are incurred.

K. Federal and State operating assistance funds:

Federal and State operating assistance funds to be received by SATA under the Urban Mass Transportation Act of 1964, as amended, and under the Michigan Public Mass Transportation Grant Program are recorded and reflected as income in the period to which they are applicable.

Shiawassee Area Transportation Agency
Notes to Financial Statements
September 30, 2004 and 2003

1. Summary of significant accounting policies - (continued)

L. Self-insurance liabilities and expense:

SATA has a self-insurance program for general liability and property damage claims through the Michigan Transit Pool.

Claims are accrued in the year the expenses are incurred, based upon the estimates of the claim liabilities made by management, legal counsel of SATA, and actuaries. Also provided for are estimates of claims incurred during the year but not yet reported.

Claims expense is accrued in the period the incidents of loss occur, based upon estimates of liability made by management with the assistance of third-party administration, legal counsel, and actuaries. Claims liability is the best estimate based on known information.

M. Passenger fares:

Passenger fares are recorded as revenue at the time services are performed.

2. Cash and investments

Investments:

SATA has adopted an investment policy. Funds of the Shiawassee Area Transportation Agency will be invested in accordance with the Michigan Constitution and Public Act 55 of 1963 and Public Act 196 of 1997, in accordance with the following objectives: safety of principle, diversification, liquidity and return of investment. In accordance with Michigan Public Act 55 of 1963 and Public Act 196 of 1997, the surplus of funds of SATA may be invested as follows:

- Bonds, bills, or notes of the United States government; obligations, the principal and interest of which are fully guaranteed by the United States government; or obligations of the State
- Certificates of deposit issued by financial institutions which, means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch in Michigan under Michigan and Federal laws
- Commercial paper rated prime or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase
- Securities issued or guaranteed by agencies or instrumentality's of the United States government
- United States government or Federal agency obligation repurchase agreements
- Bankers' acceptances issued by a bank that is a member of the Federal deposit insurance corporation
- Mutual funds composed entirely of investment vehicles that are legal for direct investment by a government agency
- Investment pools, as authorized by surplus funds investment pool Act. No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of the instruments that are legal for direct investment by a governmental agency

Shiawassee Area Transportation Agency
Notes to Financial Statements
September 30, 2004 and 2003

2. Cash and investments - (continued)

Investments: - (continued)

The purchase of the investments is to maximize the returns on SATA's surplus cash balances consistent with safety of those monies and with the desired liquidity of the investment.

Per the creation agreement, all funds received by SATA are to be deposited in a bank or other financial institution that maintains offices in Shiawassee County. SATA does not maintain a formal listing of these institutions however, SATA has only used one bank which consistently has met this criteria.

3. Capital assets

Capital asset activity for the year ended September 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ -	\$ 15,233	\$ -	\$ 15,233
Construction in progress	38,684	-	(38,684)	-
Total capital assets, not being depreciated	38,684	15,233	(38,684)	15,233
Capital assets, being depreciated:				
Buildings	-	715,390	-	715,390
Revenue equipment	390,055	52,095	-	442,150
Maintenance and garage equipment	-	14,584	-	14,584
Office equipment and furniture	37,847	5,398	-	43,245
Total capital assets, being depreciated	427,902	787,467	-	1,215,369
Less accumulated depreciation:				
Buildings	-	5,961	-	5,961
Revenue equipment	142,436	88,855	-	231,291
Maintenance and garage equipment	-	1,638	-	1,638
Furniture and fixtures	16,710	18,538	-	35,248
Total accumulated depreciation	159,146	114,992	-	274,138
Total capital assets, being depreciated, net	268,756	672,475	-	941,231
Total capital assets, net	\$307,440	\$687,708	\$ (38,684)	\$ 956,464

When assets are withdrawn from public transportation service, the grantee must remit to the grantor, the grantor's pro-rata share of the fair market value as of the date the asset was withdrawn from service; should an asset be sold by the grantee, the grantee must remit to the grantor, the grantor's pro-rata share of the proceeds less any amount specified as a service fee per the grant. However, if items of equipment have a current per-unit fair market value of less than \$5,000 the unit may be retained, sold, or otherwise disposed of with no further obligation to the grantor.

SATA has a fleet of thirteen vehicles. Eight of these vehicles were purchased by SATA. The other vehicles were either donated to SATA or are under lease to SATA.

Shiawassee Area Transportation Agency
Notes to Financial Statements
September 30, 2004 and 2003

4. Line of credit

SATA has a \$40,000 line of credit, due on demand, with an interest rate of prime. The line of credit is secured by all assets and collateralized by three vehicles. The amount due was \$-0- as of September 30, 2004 and 2003.

The prime rate at September 30, 2004 was 4.75%.

5. Leases

Operating leases:

SATA has an agreement with Shiawassee Council on Aging for lease of three vehicles, for the sum of \$26,534 and \$22,055 for 2004 and 2003, respectively. SATA is to maintain insurance on these vehicles.

6. State grants

<u>Grantor</u>	<u>Contract or Project #</u>	<u>Grant Amount</u>	<u>Amount Earned This Audit Period</u>	<u>Total Amount Earned</u>	<u>Amount Deobligated</u>	<u>Amount Remaining</u>
State operating grants (excluding operating assistance and Project Zero Operating):						
State of Michigan D.O.T. (Specialized Services)	2002-0086/Z7	\$ 72,550	\$ 72,550	\$ 72,550	\$ -	\$ -
State capital grants (excluding federal portion reported on Schedule of Federal Awards)						
State of Michigan D.O.T. (Project Zero Capital)	2002-0086/Z1	51,218	51,218	51,218	-	-
State of Michigan D.O.T. (Project Zero Capital)	2002-0086/Z11	55,000	-	-	-	55,000
State of Michigan D.O.T. (STP)	2000-0421	5,966	204	5,966	-	-
State of Michigan D.O.T. (STP)	2001-0928	5,530	553	1,553	-	3,977
State of Michigan D.O.T. (STP)	2003-0086/Z4	6,250	935	1,710	-	4,540
State of Michigan D.O.T.	2001-0553	396,652	65,072	396,652	-	-
State of Michigan D.O.T.	2003-0086/Z5	58,474	40,923	48,660	-	9,814
State of Michigan D.O.T.	2002-0086Z9	16,984	-	-	-	16,984
State of Michigan D.O.T.	2002-0086/Z14	93,750	34,862	34,862	-	58,888
Total state assistance		<u>\$762,374</u>	<u>\$266,317</u>	<u>\$613,171</u>	<u>\$ -0-</u>	<u>\$149,203</u>

Shiawassee Area Transportation Agency
Notes to Financial Statements
September 30, 2004 and 2003

7. Deferred compensation plan

SATA offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. A trust was created for the plan assets, thereby insulating the assets from SATA's general creditors. SATA's plan administrator, ICMA Retirement Corporation, created the trust and has placed the assets of the plan within the trust. The plan does not permit loans.

8. Compensated absences

Leave time – less than two years seniority:

Full-time employees with less than two years of seniority shall accrue paid leave time at the rate of 80 hours annually. Part-time employees with less than two years of seniority whose regular work schedules are at least 20 hours per week shall accrue paid leave time at the rate of 40 hours annually. Part-time employees whose regular work schedules are fewer than 20 hours per week shall not earn paid leave time.

Leave time – two or more years of seniority:

Full-time employees with two or more years of seniority shall accrue paid leave time at the rate of 120 hours annually. Part-time employees with two or more years of seniority whose regular work schedules are at least 20 hours per week shall accrue paid leave time at the rate of 60 hours annually.

Leave time accrual:

Leave time shall be accrued on a monthly basis. The rate of accrual shall be calculated by dividing the annual rate of accrual by 12. The maximum amount of leave time that may be accumulated and used for paid leave accrued shall be 200% of the annual rate at which leave time is earned.

Compensation for unused leave time:

Unused leave time in excess of the maximum accumulation shall be paid at the rate of 50% of the employee's regular hourly rate of pay. Said payment shall be made once per year on the last payroll of the fiscal year (September).

9. Related party transactions

The various parties to the SATA agreement provide in-kind services to SATA. SATA would have to pay for all services provided by the related parties. The value of these services have been recorded as revenue and expenses at their fair value as detailed below:

	<u>2004</u>	<u>2003</u>
City of Owosso – payroll processing and personnel consulting	\$ 6,297	\$ 5,482
Shiawassee Regional Education Service District (RESA)		
management and accounting assistance	54,803	39,510
Memorial Health Care – marketing services	97	429
SCOA – other services	1,743	1,624
SCOA – leased buses	26,532	22,052
	<u>\$ 89,472</u>	<u>\$ 69,097</u>

Shiawassee Area Transportation Agency
Notes to Financial Statements
September 30, 2004 and 2003

10. Risk management

The Shiawassee Area Transportation Agency is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. SATA has purchased commercial insurance for property, boiler and machinery, crime, inland marine, public officials liability, employee dishonesty, workers compensation, and medical. SATA participates in the Michigan Transit Pool for claims relating to liability, no-fault and excess comprehensive coverage. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Transit Pool risk pool program operates as a claims – servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Premiums are paid annually to the pool that will be used to pay claims up to the SATA's retention limit. Pool members share proportionately in losses that exceed member retentions. The Michigan Transit Pool also operates as an insurance-purchasing pool for transit agencies in Michigan. The pool purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

The Michigan Transit Pool estimates the liability for auto and general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported to the pool. The pool's fiscal year is December 1 – November 30. Since SATA joined the pool effective December 1, 2003, no adverse claim development costs were incurred during the fiscal year ended September 30, 2004.

11. Contingencies/commitments

SATA participates in federally assisted grant programs. The programs are subject to compliance audits. In accordance with the Single Audit Act of 1984, compliance audits of federal grants were made during the current year. However, specific grantors have yet to make final approval of the compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agency, cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

Supplementary Information

Shiawassee Area Transportation Agency
Enterprise Fund
Operating and Nonoperating Revenues
For the Year Ended September 30, 2004
With Comparative Totals for the Year Ended September 30, 2003

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Passenger fares	\$ 62,740	\$ 72,308
Contract fares	247,029	139,721
Advertising	6,638	9,811
Miscellaneous	-	248
	<hr/>	<hr/>
Total operating revenues	\$ 316,407	\$ 222,088
	<hr/>	<hr/>
Nonoperating revenues:		
State of Michigan operating grants:		
Formula operating assistance (Act 51) - current year	\$ 310,315	\$ 310,159
Formula operating assistance (Act 51) - prior year	-	812
Project Zero	110,228	91,464
Specialized Services	72,550	72,550
Federal operating grants:		
Section 5311-current year	77,357	69,208
RTAP	3,247	3,500
Local operating grants:		
Contributed services	186,967	167,076
Gain on sale of capital assets	-	4,957
	<hr/>	<hr/>
Total nonoperating revenues	\$ 760,664	\$ 719,726
	<hr/>	<hr/>

Shiawassee Area Transportation Agency
Enterprise Fund
Operating Expenses
For the Year Ended September 30, 2004
With Comparative Totals for the Year Ended September 30, 2003

	Operations	Maintenance	General Administration	2004 Total System	2003 Total System
Labor:					
Operator's salaries and wages	\$ 270,548	\$ -	\$ -	\$ 270,548	\$ 259,754
Other salaries and wages	-	5,603	46,652	52,255	45,750
Dispatcher's salaries and wages	43,677	-	-	43,677	43,052
Fringe benefits	76,638	486	3,731	80,855	87,667
Services:					
Advertising fees	-	-	2,430	2,430	1,690
Other services	137,757	74,778	87,136	299,671	270,689
Materials and supplies consumed:					
Fuel and lubricants	49,991	-	-	49,991	41,929
Tires and tubes	2,127	-	-	2,127	2,164
Other materials and supplies	550	33,791	2,683	37,024	25,239
Utilities	-	-	4,873	4,873	6,321
Casualty and liability costs:					
Premiums for public liability	35,651	-	-	35,651	50,857
Other insurance	-	-	797	797	2,362
Miscellaneous expense:					
Travel and meetings	280	85	4,637	5,002	1,686
Other miscellaneous expenses	-	-	2,388	2,388	5,308
Leases and rentals	31,607	-	-	31,607	28,052
Interest expense	-	-	-	-	863
Depreciation expense	-	-	114,992	114,992	77,742
Total expenses	\$ 648,826	\$ 114,743	\$ 270,319	\$ 1,033,888	\$ 951,125

Shiawassee Area Transportation Agency
Enterprise Fund
Schedule of Expenses by Contract and General Operations
For the Year Ended September 30, 2004
With Comparative Totals for the Year Ended September 30, 2003

	Project Zero	Operations	Specialized Services	2004 Total System	2003 Total System
Labor	\$ 48,052	\$ 318,428	\$ -	\$ 366,480	\$ 348,556
Fringe benefits	10,547	70,308	-	80,855	87,667
Services	30,077	199,474	72,550	302,101	272,379
Materials and supplies consumed	11,718	77,424	-	89,142	69,332
Utilities	753	4,120	-	4,873	6,321
Casualty and liability costs	4,151	32,297	-	36,448	53,219
Miscellaneous expense	835	6,555	-	7,390	6,994
Leases and rentals	4,095	27,512	-	31,607	28,052
Interest expense	-	-	-	-	863
Depreciation expense	-	114,992	-	114,992	77,742
Total expenses	\$ 110,228	\$ 851,110	\$ 72,550	\$ 1,033,888	\$ 951,125

**Shiawassee Area Transportation Agency
Maximum Reimbursement Computation of
State Bus Operating Assistance
For the Year Ended September 30, 2004**

State operating assistance

Operations expenses:

Labor	\$ 366,480
Fringe benefits	80,855
Services	302,101
Materials and supplies	89,142
Utilities	4,873
Casualty and liability costs	36,448
Miscellaneous expense	7,390
Leases and rentals	31,607
Depreciation expense	114,992

Total operations expenses	1,033,888
---------------------------	-----------

Less ineligible expenses:

Project Zero	110,228
Specialized services	72,550
RTAP	3,247
Depreciation expense	112,044
Advertising	1,054
Dues	58

Total ineligible expenses	299,181
---------------------------	---------

Net eligible expenses	\$ 734,707
-----------------------	------------

State operating assistance

Forecasted available resources (42.236619648% of eligible expenses)	\$ 310,315
State programmed receipts	288,153
Project under payment	\$ 22,162

Federal operating assistance

Net State eligible expenses	\$ 734,707
Less: Ineligible audit fees	6,170
Net Federal eligible expenses	\$ 740,877
Section 5311 - 10.95% of net eligible Federal expenses	\$ 81,126
Federal programmed receipts	77,357
Project under payment	(1) \$ 3,769

(1) Receivable was not recorded as the Federal expenses had a maximum reimbursement of \$77,357

**Shiawassee Area Transportation Agency
Detail of Ineligible Items - State
For the Year Ended September 30, 2004**

DEPRECIATION AND AMORTIZATION

Depreciation expense of public operations is ineligible according to UMTA C 9050.1, Page A-4 for all capital assets purchased from federal, state, or local funds. Amortization expense of assets purchased through capital leases which are being repaid from state and federal funds has also been included as an ineligible expense. For capital assets purchased from SATA's funds, depreciation is an eligible expense for state operating assistance purposes and amounted to \$2,948.

MISCELLANEOUS

The following expenditures are not eligible for operating assistance:

<u>Description</u>	<u>Amount</u>
Advertising	\$ 1,054
Dues	<u>58</u>
Total miscellaneous	<u>\$ 1,112</u>

SATA paid \$790 in connection with annual dues to the Michigan Public Transit Association. It has been determined that these organizations devote approximately 7.4 percent, of their activities to influencing legislation, which is not eligible for reimbursement according to OMB Circular A-87. The ineligible portion of dues paid amounted to \$58 for the year.

Shiawassee Area Transportation Agency
Vehicle Miles
For the Years Ended September 30, 2004 and 2003
(Unaudited)

	Public Transportation Mileage	
	<u>2004</u>	<u>2003</u>
<u>Demand Response</u>		
First Quarter	90,404	71,075
Second Quarter	92,126	81,119
Third Quarter	92,257	85,116
Fourth Quarter	92,642	95,599
Total Operation	<u>367,429</u>	<u>332,909</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

**Independent Auditors' Report on Compliance on
Internal Control over Financial Reporting Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards***

To the Board of Directors
Shiawassee Area Transportation Agency
Owosso, Michigan

We have audited the financial statements of Shiawassee Area Transportation Agency, Owosso, Michigan, as of and for the year ended September 30, 2004, and have issued our report thereon dated December 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Shiawassee Area Transportation Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Shiawassee Area Transportation Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Shiawassee Area Transportation Agency, federal awarding agencies and pass-through entities and is not intended for and should not be used by anyone other than those specified parties.

BKR Dupina & Ryden

Certified Public Accountants
Flint Office

December 9, 2004

**Independent Auditors' Report on Compliance with
Requirements Applicable to each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Directors
Shiawassee Area Transportation Agency
Owosso, Michigan

Compliance

We have audited the compliance of Shiawassee Area Transportation Agency with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2004. Shiawassee Area Transportation Agency's major federal program is identified in the summary of auditor's results of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Shiawassee Area Transportation Agency's management. Our responsibility is to express an opinion on Shiawassee Area Transportation Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shiawassee Area Transportation Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Shiawassee Area Transportation Agency's compliance with those requirements.

In our opinion, Shiawassee Area Transportation Agency complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2004.

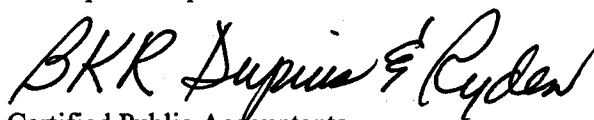
Internal Control over Compliance

The management of Shiawassee Area Transportation Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Shiawassee Area Transportation

Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations we consider to be material weaknesses.

This report is intended solely for the information and use of Shiawassee Area Transportation Agency, federal awarding agencies and pass-through entities and is not intended for and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "BKR Dupuis & Ryden".

Certified Public Accountants
Flint Office

December 9, 2004

**Shiawassee Area Transportation Agency
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2004**

	<u>Federal CFDA Number</u>	<u>Federal/State Project Number</u>	<u>Total Federal Allocation</u> ^{(2) (3)}
<u>U.S. Department of Transportation</u>			
<u>Passed through State of Michigan</u>			
<u>Department of Transportation</u>			
Federal Transit Capital Investment Grants	20.500 ⁽¹⁾	MI-03-X176 2001-0553	\$396,652
Federal Transit Capital Investment Grants	20.500 ⁽¹⁾	MI-03-186 2002-0086Z5	<u>233,896</u>
			<u>630,548</u>
Formula Grants other than Urbanized Areas	20.509	2000-0421	25,000
Formula Grants other than Urbanized Areas	20.509	2001-0928	25,000
Formula Grants other than Urbanized Areas	20.509	MI-18-X032 2002-0086Z4	25,000
Formula Grants other than Urbanized Areas	20.509	MI-18-X034 2002-0086Z9	67,936
Formula Grants other than Urbanized Areas	20.509	MI-18-X036 2002-0086Z14	375,000
Formula Grants other than Urbanized Areas	20.509	MI-18-X035 2002-0086Z12	<u>79,589</u>
			<u>597,525</u>
			<u>\$1,228,073</u>

<u>Revenue Recognized This Audit Period</u>	<u>Disbursements/ Expenditures During This Audit Period</u>	<u>Cumulative Disbursements/ Expenditures</u>	<u>Amount Remaining</u>
\$260,288	\$260,288	\$396,652	\$ -
163,693	163,693	194,640	39,256
423,981	423,981	591,292	39,256
816	816	24,999	1
2,211	2,211	6,211	18,789
3,738	3,738	6,839	18,161
-	-	-	67,936
139,449	139,449	139,449	235,551
77,357	77,357	77,357	2,232
223,571	223,571	254,855	342,670
\$647,552	\$647,552	\$846,147	\$381,926

(continued)

**Shiawassee Area Transportation Agency
Schedule of Expenditures of Federal Awards – (continued)
For the Year Ended September 30, 2004**

NOTES:

- (1) Denotes major program.
- (2) The schedule of expenditures has been prepared on the accrual basis.
- (3) RTAP funding is received through the State of Michigan, however no amount has been detailed on this schedule for RTAP funding. No formal grant agreement is signed so no federal project number is available. RTAP funding of \$3,247 was recognized as revenue for fiscal year ending September 30, 2004.

**Shiawassee Area Transportation Agency
Schedule of Findings and Questioned Costs
Year Ended September 30, 2004**

Part I

1. Did the auditee expend more than \$25,000,000
in federal awards during the fiscal year? Yes X No
2. If answer to question 1 was yes, indicate which
federal agency provided the predominant amount
of direct funding. _____

Part II – Financial Statements

- Type of auditor's report issued: Unqualified
- Going concern explanatory paragraph included Yes X No
- Internal control over financial reporting:
- Material weakness(es) identified? Yes X No
- Reportable condition(s) identified
- Not considered to be material weaknesses? Yes X None reported
- Noncompliance material to financial statements
noted? Yes X No

Findings related to the financial statements reported in accordance with *Governmental Auditing Standards*: None

Part III – Federal Programs

- Type of auditor's report issued on compliance
for major programs: Unqualified
- Does the auditor's report include a statement
that the auditee's financial statements include
departments, agencies, or other organizational
units expending greater than \$300,000 in Federal
awards that have separate A-133 audits which are
not included in this audit? Yes X No
- Dollar threshold used to distinguish
between Type A and Type B programs \$300,000
- Auditee qualified as low-risk auditee Yes X No

(continued)

**Shiawassee Area Transportation Agency
Schedule of Findings and Questioned Costs – (continued)
Year Ended September 30, 2004**

Part III – Federal Programs – (continued)

Is a reportable condition disclosed for any major program? Yes X No

Is any reportable condition reported as a material weakness? Yes X No

Are any known questioned costs reported? Yes X No

Was a Summary Schedule of Prior Audits Findings Prepared? Yes X No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>20.500</u>	<u>Federal Transit Capital Investment Grants</u>

Findings and questioned costs relating to federal awards:

None

**Shiawassee Area Transportation Agency
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2004**

There were no prior year audit findings.

December 9, 2004

Board of Directors
Shiawassee Area Transportation Agency
Owosso, Michigan

We have audited the financial statements of the Shiawassee Area Transportation Agency (SATA) for the year ended September 30, 2004, and have issued our report thereon dated December 9, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 5, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Shiawassee Area Transportation Agency. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Shiawassee Area Transportation Agency are described in Note 1 to the financial statements. We noted no transactions entered into by SATA during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. SATA did implement GASB 34 for the fiscal year ended September 30, 2004.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- fixed asset depreciable lives

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed audit adjustments to all balance sheet accounts that could, in our judgment, either individually or in the aggregate, have a significant effect on SATA's financial reporting process. Uncorrected misstatements (passed adjustments not posted) aggregated by BKR Dupuis & Ryden during the current audit were immaterial, both individually and in the aggregate to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to SATA's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as SATA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered the following difficulties in performing and completing our audit:

- no accrual entries for payable and receivables were made prepaid insurance was not adjusted to actual, fixed assets purchased were expensed and not capitalized, no depreciation was recorded on fixed assets and grant revenue was not reconciled.

In planning and performing our audit of the financial statements of SATA for the year ended September 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards

established by the American institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect SATA's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

2004 Comments and Recommendations

Accounts Payable

Any amount due to vendors incurred by month-end but not yet paid, should be recorded as an accounts payable. Invoices should be entered into accounts payable for payment when received. Checks issued to pay an accounts payable invoice should be dated the date the checks are written. Any amounts due for capital outlays should be recorded as a payable as well.

Punch Passes

Punch passes are sold by drivers on their buses. A system to monitor punch passes sold by drivers needs to be implemented to ensure that all cash is turned in as passes are sold.

Grants/Contracts

Grant and contract revenue billed and received need to be reconciled to the grant award on contract and the general ledger. In order to perform this reconciliation, the staff performing the accounting must receive copies of all award grants/contracts and the billings made against these grants/contracts. These documents are also needed to properly record revenue received on the general ledger.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

Update on 2003 Comments and Recommendations

Fixed Assets

We commented that a fixed asset schedule needed to be maintained that detailed the following:

- Asset description
- Date of purchase
- Cost
- Detail of funding percentages by funding sources; federal, state, and/or local
- Depreciation expense

A fixed asset schedule was not maintained for 2004.

Members of the Agency
Shiawassee Area Transportation Agency
December 9, 2004
Page 4

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with personnel of SATA, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We also want to note that for fiscal year 2005, SATA will need to record inventory on its accounting records for maintenance parts and liquids. A physical inventory of these items will need to be taken on September 30. The general ledger will need to be adjusted to the actual physical inventory at that time.

We appreciate the opportunity to present this letter for your analysis and review. We would also like to express our appreciation for the cooperation extended to our staff by Shiawassee Regional Education Service District (RESA) personnel during the course of our audit. If you have any questions regarding the contents of this letter, please contact us.

This information is intended solely for the use of the Audit Committee, the Agency's Board, and management of Shiawassee Area Transportation Agency and should not be used for any other purpose.

Sincerely,

A handwritten signature in cursive script, appearing to read "BKR Dupuis & Ryden".

BKR Dupuis and Ryden
Flint Office